

February 13, 2001

TO: Senator Sid Snyder, Chair
Senator Dan McDonald
Representative Hans Dunshee
Fred Kiga, Director, Department of Revenue
Marty Brown, Director, Office of Financial Management

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: FEBRUARY 10, 2001 REVENUE COLLECTION REPORT

General Fund-State receipts were \$6.9 million above the forecast for the January 11 - February 10, 2001 collection period despite evidence of a slowing national economy. Stronger than expected Revenue Act (sales, business and occupation, use and public utility taxes) receipts and lottery transfers to the General Fund accounted for this month's positive variance. This month's receipts includes a large, unexpected \$8 million audit payment. Excluding this special factor, General Fund receipts were \$1.1 million below the estimate for the month. Cumulatively, receipts in the three months since the November forecast are \$40.9 million higher than expected. Only part of this, however, reflects a stronger than expected economy. More than half of the \$40.9 million cumulative variance is due to special factors: three large audit payments (the one this month and two last month), and an unusually large use tax payment last month. Excluding the special factors, General Fund receipts are about \$14.1 million higher than expected in the three months since the November forecast. Although the national economy slowed in the fourth quarter, with real GDP increasing only 1.4 percent, holiday spending was not as bleak as first thought. Advanced sales estimates indicate that nationally, retail sales were up 4.2 percent year-over-year for the quarter. At the state level, the economy continued to add jobs faster than assumed in the November forecast. While weakening consumer confidence likely slowed spending locally as well as nationally, activity was still a little stronger than we assumed in the November forecast.

Revenue act receipts were \$8.6 million above the estimate for the month and are \$45.1 million above the forecast cumulatively since November. Without special factors, Revenue Act receipts would be less than a million higher than expected this month and \$18.4 million above the estimate cumulatively since November. Revenue Act collections in the January 11 - February 10 collection period were up 4.6 percent from the year-ago level, adjusting for legislation and special factors. Collections this period primarily reflect December 2000 business activity of monthly taxpayers, October through December activity of quarterly filers, and calendar year 2000 business of annual taxpayers. Revenue Act growth in December was less than last month's revised 6.8 percent increase but was above both September's and October's increases. Growth for the entire fourth quarter was 5.2 percent, higher than the 3.9 percent increase in the third quarter.

While economic and revenue growth turned out to be stronger than assumed in the fourth quarter, it is unclear if this will repeat in the first quarter of 2001. Economic indicators at the national level are mixed. The unemployment rate rose in January, but there were more than expected new jobs created. Most national forecasters including Data Resources have lowered their outlook for real GDP growth in the first half of 2001, but retail sales may have rebounded in January and housing is likely benefiting from lower interest rates. Although the manufacturing sector remains weak, it is unlikely that the U.S. economy has fallen into a recession.

Preliminary data on taxes paid during the January 11 - February 10 collection period shows a little better than average growth in the retail trade sector, with double-digit growth in the furniture and household equipment sector. The general merchandise sector was also strong, with reported tax payments nearly 6 percent above the year-ago level. There was evidence of weakness in some retail trade sectors: food stores, the auto sector and miscellaneous retailing all reported less than a two percent increase in tax payments in the current collection period. Outside retail trade, the communications, transportation and utilities sector reported a double digit increase in tax payments, likely in part due to a sharp increase in public utility tax payments in response to higher energy prices. The manufacturing sector was again weak, reporting a decline in year-over-year tax payments.

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$3.8 million below the forecast in January. Property, real estate excise and liquor taxes were less than expected for the month more than offsetting higher than expected cigarette and estate tax payments. Cumulatively, Non Revenue Act taxes are \$8.2 million below the forecast, with property and real estate excise tax payments accounting for most of the shortfall. Most of the property tax shortfall is believed to be due to timing and is expected to be recouped over the next few months. The shortfall in real estate excise tax payments reflects weaker than expected activity despite declining interest rates. January real estate excise tax payments (reflecting closings in December) fell 0.2 percent and have declined three of the past four months. For the calendar year 2000, activity fell 1.5 percent, the first annual decline since 1995. Activity in King County appears to be weakening with closings in December down 0.1 percent from a year-ago and activity for all of calendar 2000 up only 0.6 percent.

Other agencies' collections were \$2.2 million above the forecast in January. Department of Licensing General Fund collections were virtually right on the estimate. Cumulative their General Fund collections are \$0.1 million above expectations. The lottery's General Fund deposits were higher than expected, again benefiting from a growing lotto jackpot. General Fund transfers were \$2.2 million above the estimate for the month. Cumulative, lottery transfers are \$3.8 million more than expected.

The attached Table 1 provides a comparison of collections with the November forecast for the January 11 - February 10, 2001 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
February 10, 2001 Collections Compared to the November 2000 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
January 11 - February 10, 2001				
Department of Revenue-Total	\$1,017,719	\$1,022,452	\$4,733	0.5%
Revenue Act** (1)	934,400	942,973	8,573	0.9%
Non-Revenue Act(2)	83,319	79,479	(3,840)	-4.6%
Liquor Sales/Liter	10,821	10,229	(592)	-5.5%
Cigarette	5,460	6,469	1,009	18.5%
Property (State School Levy)	12,307	9,933	(2,374)	-19.3%
Estate	7,908	8,492	584	7.4%
Real Estate Excise	35,436	32,898	(2,537)	-7.2%
Timber (state share)	0	0	0	NA
Other	11,388	11,458	70	0.6%
Department of Licensing (2)	591	624	33	5.5%
Lottery (2)	5,596	7,764	2,169	38.8%
Total General Fund-State***	\$1,023,906	\$1,030,840	\$6,934	0.7%
Cumulative Variance Since the November Forecast (November 11 - February 10, 2001)3				
Department of Revenue-Total	\$2,943,635	2,980,547	36,912	1.3%
Revenue Act** (3)	2,155,016	2,200,094	45,078	2.1%
Non-Revenue Act(4)	788,619	780,453	(8,166)	-1.0%
Liquor Sales/Liter	25,253	24,707	(546)	-2.2%
Cigarette	16,106	16,467	361	2.2%
Property (State School Levy)	578,692	571,781	(6,911)	-1.2%
Estate	23,494	25,537	2,043	8.7%
Real Estate Excise	99,748	95,517	(4,230)	-4.2%
Timber (state share)	4,340	4,208	(132)	NA
Other	40,986	42,235	1,250	3.0%
Department of Licensing (4)	1,617	1,675	58	3.6%
Lottery (4)	14,130	17,966	3,836	27.1%
Total General Fund-State***	\$2,959,382	\$3,000,188	\$40,806	1.4%

1 Collections January 11 - February 10, 2001. Collections primarily reflect December 2000 activity of monthly taxpayers, q4 liability of quarterly taxpayers and calendar 2000 activity of annual filers.

2 January 1-31, 2001 collections.

3 Cumulative collections, estimates and variance since the November forecast; (Nov. 11- February 10, 2001) and revisions to history.

4 Cumulative collections, estimates and variance since the November forecast; (November,2000 - January 2001) and revisions to history

* Based on the November 2000 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
January 10, 2001 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
December 11 - January 10, 2001				
Department of Revenue-Total	\$969,927	\$969,927	(\$0)	-0.0%
Revenue Act (1)	646,315	646,315	(0)	-0.0%
Non-Revenue Act(2)	323,612	323,612	(0)	-0.0%
Liquor Sales/Liter	7,609	7,609	(0)	-0.0%
Cigarette	4,703	4,703	0	0.0%
Property (State School Levy)	268,918	268,918	0	0.0%
Estate	8,880	8,880	(0)	-0.0%
Real Estate Excise	29,065	29,065	0	0.0%
Timber (state share)	0	0	0	NA
Other	4,437	4,437	(0)	-0.0%
Department of Licensing (2)	607	556	(51)	-8.4%
Lottery (2)	1,971	1,971	0	0.0%
Total General Fund-State***	\$972,505	\$972,454	(\$51)	-0.0%

Cumulative Receipts: November 11 - January 10, 2001 & Revisions to History

Department of Revenue-Total	1,958,096	\$1,958,096	(\$0)	-0.0%
Revenue Act (3)	1,257,121	1,257,121	0	0.0%
Non-Revenue Act(4)	700,974	700,974	0	0.0%
Liquor Sales/Liter	14,479	14,479	(0)	-0.0%
Cigarette	9,998	9,998	0	0.0%
Property (State School Levy)	561,848	561,848	0	0.0%
Estate	17,045	17,045	(0)	-0.0%
Real Estate Excise	62,619	62,619	(0)	-0.0%
Timber (state share)	4,208	4,208	(0)	NA
Other	30,778	30,778	(0)	-0.0%
Department of Licensing (4)	1,073	1,021	(52)	-4.8%
Lottery (4)	10,201	10,201	0	0.0%
Total General Fund-State***	1,969,370	\$1,969,318	(\$52)	-0.0%

P-Preliminary. Reported in the January 10, 2001 collection report.

R Revised data.

1 Collections December 11 - January 10, 2001. Collections primarily reflect November 2000 business activity of monthly taxpayers.

2 December 1-31, 2000 collections.

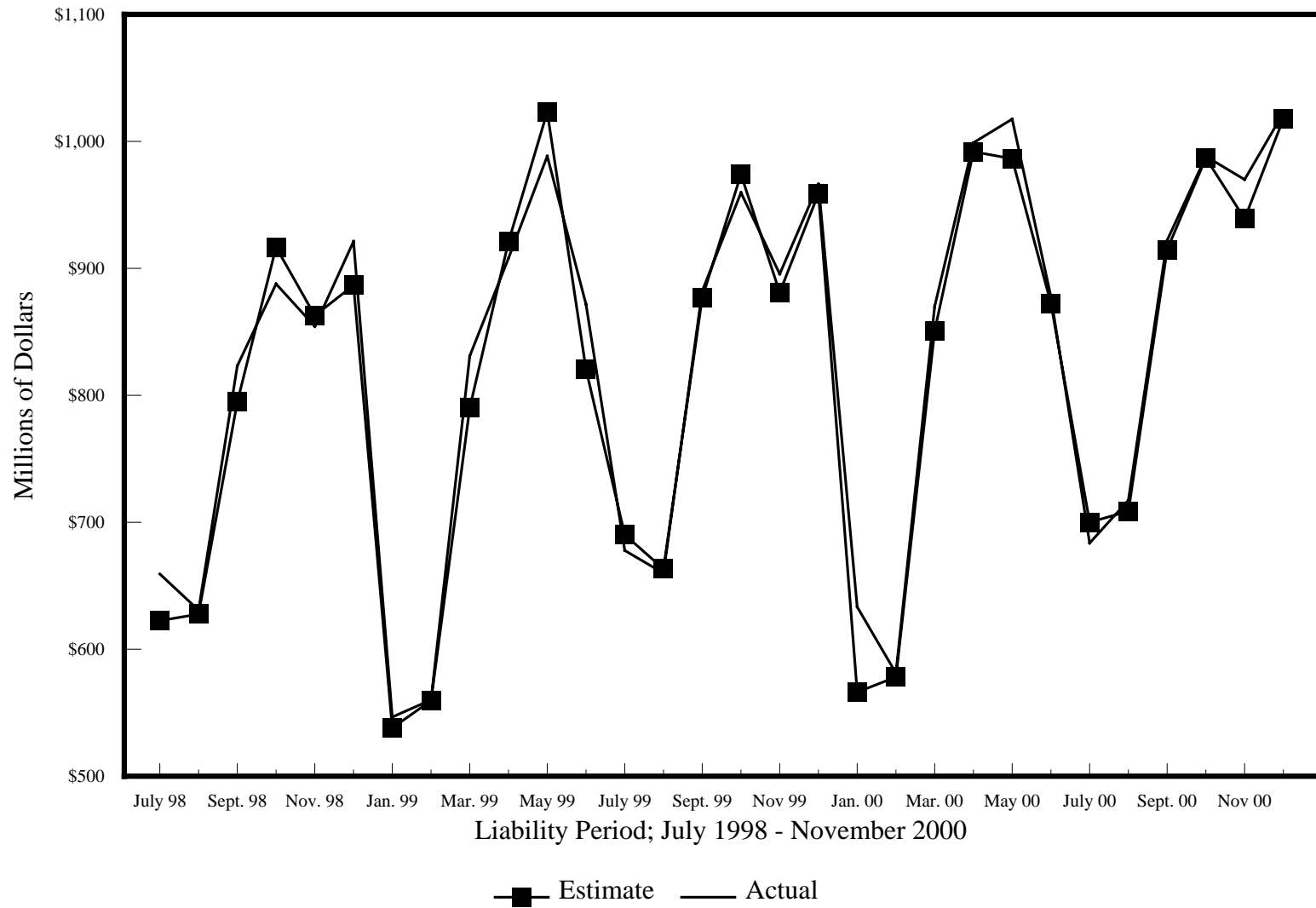
3 Cumulative variance for since the September forecast: Nov. 11 - January 10, 2001 & revisions to history.

4 Cumulative variance: since the November forecast (November & December 2000) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

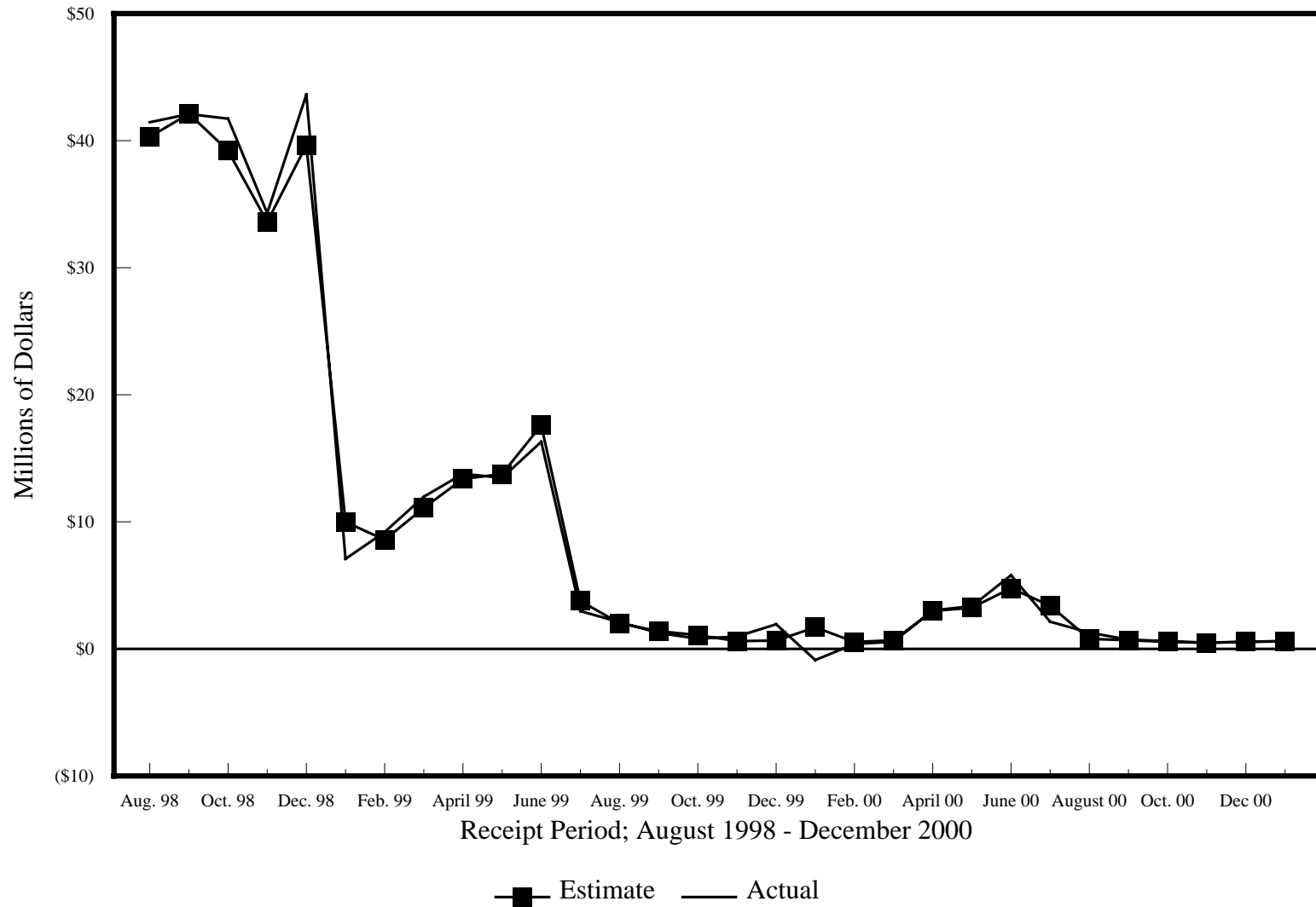
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to December 2000



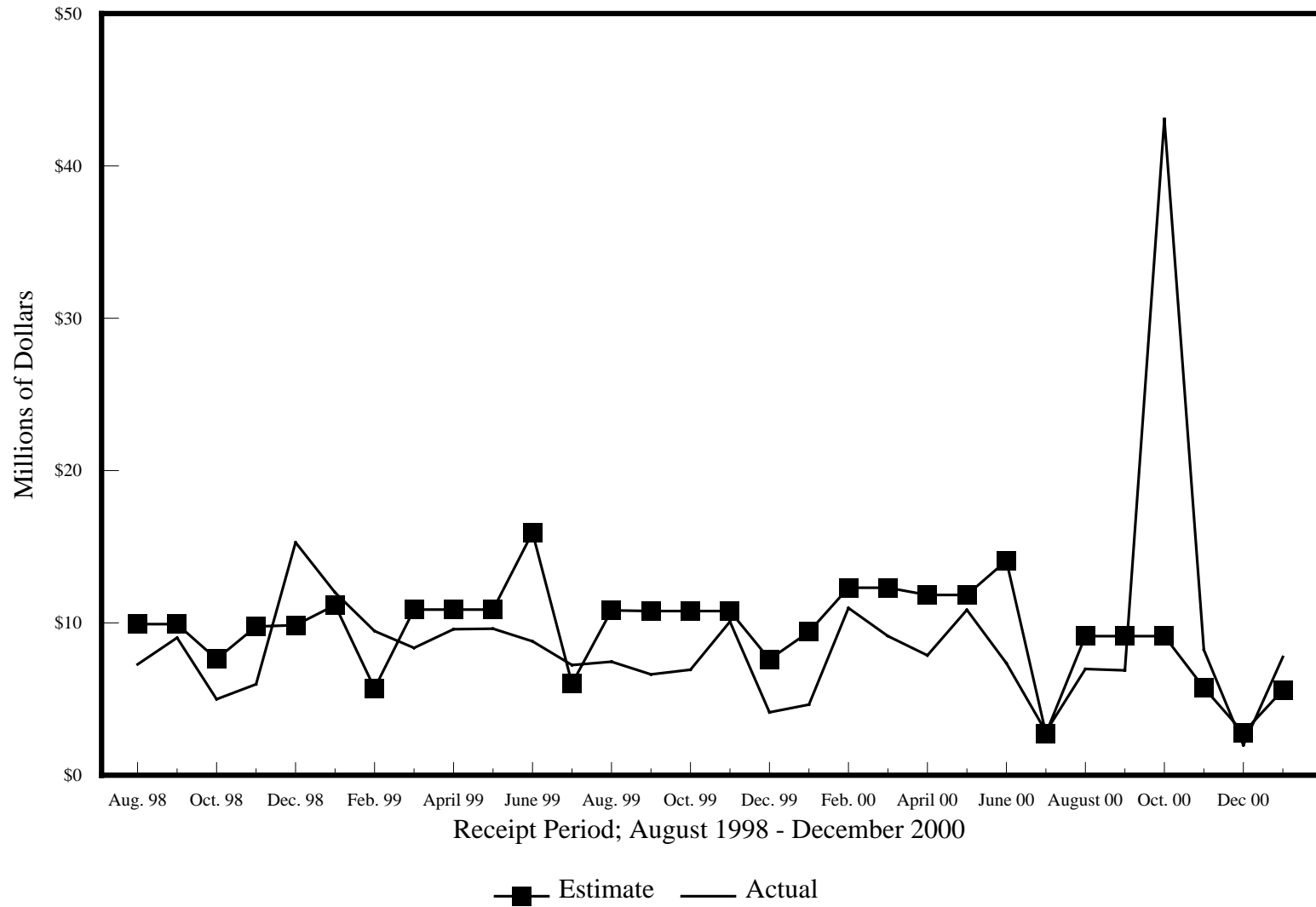
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to January 2001



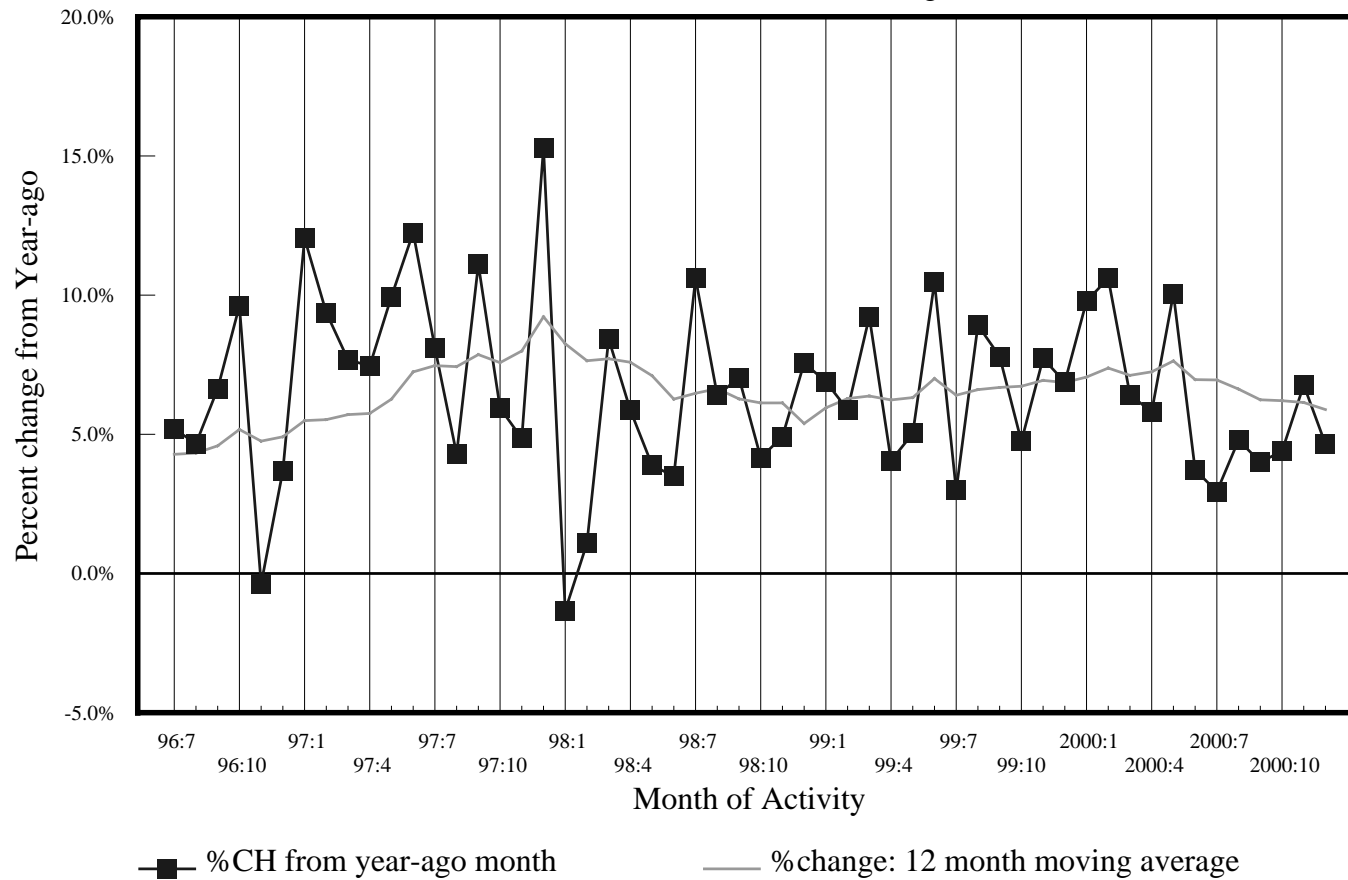
Lottery Transfers to the General Fund, Actual vs. Estimate

August 98 to January 2001



Revenue Act Net Collections*

Year-over-Year Percent Change



*Excluding new legislation and special factors